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to: **Lesley Cummings**

date: **May 23, 2010**

from: **Sandi Hunt & Pete Davidson**

subject: **MRMIP Enrollment
Recommendation**

As requested, we have updated our analysis of the Major Risk Medical Insurance Program (MRMIP) revenues, expenses, and enrollment for fiscal year 2010-2011. Our recommendation is to maintain the MRMIP enrollment target at 7,100. In developing the recommendation, we relied upon enrollment, premium, and claims data files and other information provided by Managed Risk Medical Insurance Board (MRMIB) and participating health plan staff. Our analysis was supported by continuing efforts by MRMIB and health plan staff to clean up and validate the underlying data and reconciliation settlements for prior years; however issues with willingness of healthplans to agree to settlements for prior years continue to add uncertainty around the amount of available funds in future periods.

Background

MRMIP and Guaranteed Issue Pilot Program (GIP) share a single funding amount. Thus, the number of individuals that can be covered under MRMIP is dependent on the funding remaining after the State pays its share of GIP costs. Financing of MRMIP and GIP is essentially on a pay-as-you-go basis, with annual appropriations and a stated goal of achieving a fund balance as close to zero as possible, without going negative, on June 30 of each fiscal year. Strict conformity with this goal would result in wide fluctuations in MRMIP enrollment targets from year-to-year, so we generally model fund balances over multiple years to smooth results. Pay-as-you-go financing is particularly challenging for MRMIP/GIP due to the settlement process under which the State's and healthplans' ultimate liabilities are determined; this process generally takes several years to complete, though MRMIB is making substantial efforts to reduce this timeframe. These settlements may result in additional payments to or recoveries from the health plans in the amount of several million dollars, which directly and significantly impacts the funds available to cover MRMIP enrollees in the current period. MRMIB has some ability to control the timing of settlement payments, so there may be opportunities to delay or speed up payments to manage year-end fund balances if necessary, which may affect results for a given year, but doesn't change the longer term cost to the program.

Projections of cash flows can be used to understand the extent to which available funds are expected to cover anticipated program expenditures during a given time period,

however it does not provide information on the long-term obligations to MRMIB associated with current, past, or future enrollees. To the extent that these obligations can be reasonably estimated we recommend that reserves be established by MRMIB, which is a departure from pay-as-you-go financing. Reserves are typically established to recognize all costs expected to be incurred during a given time period, often one year. Depending on the Board's philosophy, reserves could be established reflecting the expected net settlement liability for the next year of coverage or some portion of it; the reserves could also be built up over time or set aside immediately. The downside to establishing reserves is that those funds are no longer available to finance current and future enrollees, and the MRMIP enrollment target must be reduced to a level lower than it would be under a pay-as-you-go approach. If adequate reserves are not established and retained, MRMIB's ability to finance its existing MRMIP enrollment may be affected when the liabilities come due. However, we understand that when MRMIB has historically established reserves or maintained positive year-end fund balances in the past, these monies have been targeted and sometimes lost during the State budgeting process. Because the liabilities remain, future enrollment must then be reduced.

Several healthplan settlements, including settlements attributable to as far back as the 2003 contract year, are anticipated during fiscal years 2009-2010 and 2010-2011. For MRMIP, the most recent estimates result in recoveries due from healthplans. While we believe reasonable estimates were performed based on the available data, past experience indicates that when requests for payment are made to the healthplans the plans become motivated to clean up the data they provided, often resulting in substantial reductions in amounts owed compared to initial estimates as well as delays in completing the transaction.

The development of accurate estimates of GIP settlement liabilities is confounded by the substantial delays in healthplan reporting of claims experience, premium revenue, and enrollment. For example, 2009 experience is available for only one of the plans. Due to the end of disenrollments from MRMIP after 36 months, no new GIP enrollees have been added since September 2007. The most recent available GIP enrollment data indicates that enrollment is declining by an average of approximately 1.5% per month so we expect GIP settlement activities to be an issue for several more years barring legislative changes impacting GIP. Implementation of the Temporary Federal High Risk Pool (TFHRP) expected sometime in the latter half of 2010 may affect the rate of disenrollment, but since TFHRP applicants must have been uninsured for 6 months to be eligible the impact is expected to be minor over the short term. At this time it is unclear whether MRMIB will continue to have liability for GIP enrollees after the TFHRP terminates operation at the end of 2013 and other Federal Health Reform measures such as guarantee issue in the Individual market go into effect.

Analysis

For the purpose of developing the enrollment target for fiscal year 2010-2011, we projected cash flows for the remainder of fiscal year 2009-2010 and for fiscal year 2010-2011. These projections were developed with the assistance of MRMIB staff, who developed the assumptions related to the timing and amount of anticipated settlements during fiscal years 2009-2010 and 2010-2011 based on analysis of invoices submitted by the participating health plans. Note that there are some significant differences in the assumed settlements compared to the assumptions applied in the development of the November 2009 enrollment target. The differences are the result of more detailed analysis performed by MRMIB staff. At this time, sufficient analysis of prospective plan settlement amounts and timing has not been performed to carry cash flow projections beyond fiscal year 2010-2011, however GIP settlements (payments to plans) are expected to be \$16-\$18 million for calendar year 2008 GIP coverage, dropping to \$12-\$15 million for calendar year 2010 and 2011 GIP coverage.

The following list summarizes the primary assumptions underlying the projections:

- In November 2009, we recommended and the Board approved a MRMIP enrollment target of 7,100 members for calendar year 2010.
- MRMIP enrollment as of March 2010 was 6,772 members.
- Our current estimate of the annual subsidy for MRMIP enrollees for fiscal year 2010-2011 is approximately \$3,248 per member. The attached Exhibit 1 summarizes the development of this figure.
- The MRMIP fund balance was approximately \$27.9 million as of April 30, 2010.
- Budget appropriations
 - FY 2009-2010 appropriation for local assistance of \$32.3 million was received August 2009.
 - An appropriation for State Operations of approximately \$1.0 million was received September 2009 (State Operations is approximately 3 percent of the amount available for MRMIP/GIP).
 - FY 2010-2011 appropriation is expected to be \$32.3 million and received August 2010.
 - An additional appropriation for State Operations of approximately \$2.2 million is expected September 2010.
- MRMIP settlements
 - A net of \$18.9 million estimated due from plans between June and July 2010.
 - A net of \$5.6 million estimated due from plans between November 2010 and January 2011.

- A net of \$8.6 million estimated due from plans in June 2011.
- GIP settlements
 - \$23.2 million estimated due to plans between May and June 2010.
 - A net of \$14.7 million estimated due to plans between July 2010 and January 2011.
 - A net of \$15.6 million estimated due to plans in June 2011.

Based on the assumptions above, we projected monthly MRMIP fund balances through the end of fiscal year 2010-2011. We modeled various MRMIP enrollment targets with a goal of positive but not excessive fund balances at the end of fiscal years 2009-2010 and 2010-2011. We assumed that positive fund balances would be retained by MRMIB; to the extent this is not true, enrollment targets will have to be decreased. Additionally, we assumed that all available enrollment slots would be filled; however, though the enrollment target has been at 7,100 over the last several months, not all of those slots have been filled. It is our understanding that the enrollment shortfalls have been the result of inaccurate assumptions regarding the number of accepted MRMIP applicants who will ultimately enroll. Changes to those assumptions are expected to result in enrollment closer the target, assuming demand for MRMIP coverage continues at or above recent levels.

The following table summarizes the results of the cash flow projections:

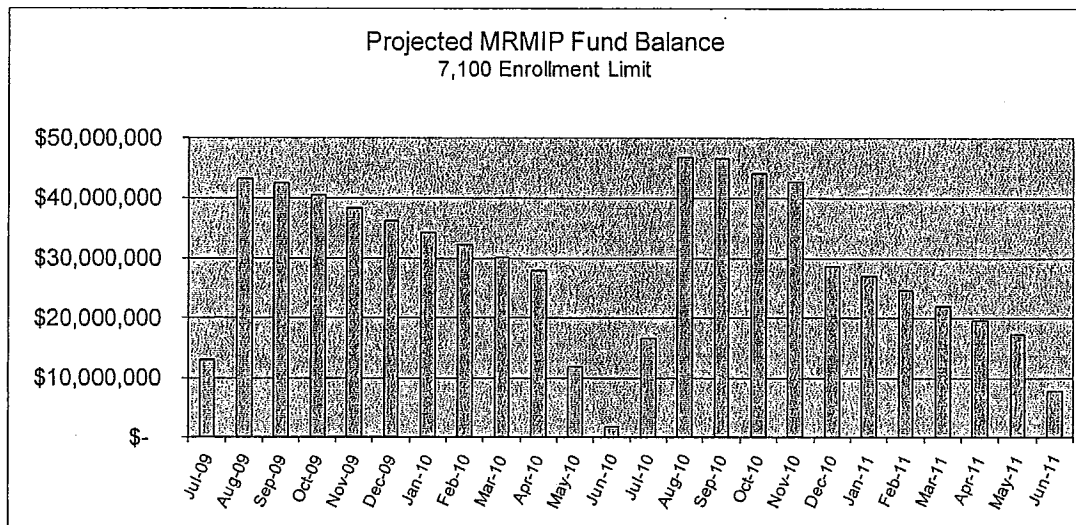
Table 1

PROJECTED MRMIP FUND BALANCE		
MRMIP Membership Target	June 30, 2010	June 30, 2011
7,100	\$1.9 million	\$7.9 million

Note that actual results could vary significantly from those displayed in Table 1 if actual timing and amount of settlements is different from that assumed. For example, an \$8.2 million MRMIP recovery from one of the plans is anticipated in June 2011; if that payment is not received the fund is projected to have a negative balance at the end of the fiscal year under this enrollment scenario.

The following chart shows the projected monthly fund balances over the projection period:

Chart 1



As a second estimate, we evaluated the number of MRMIP enrollees that could be covered during fiscal year 2010-2011 on an accrual basis. The results of that analysis are shown below:

Fiscal year 2010-2011 appropriations	\$32,346,000
less Estimated GIP settlements attributable to FY 2010-2011 enrollees	<u>\$13,000,000</u>
Funds available for MRMIP enrollees	\$19,346,000
divided by estimated Fiscal Year 2010-2011 MRMIP subsidy per person	<u>\$3,248</u>
Estimated number of MRMIP enrollees covered by available funding	5,956

We believe it is appropriate to consider both the cash and accrual estimates in reaching a conclusion regarding the recommended enrollment limit. Though on a cash basis it appears there is sufficient funding available to increase the current enrollment limit due to a projected June 30, 2011 fund balance of \$7.9 million, on an accrual basis it does not. There is considerable uncertainty due to the large receivables due from plans and past history of difficulties recovering those amounts, potential impacts due to the upcoming implementation of the TFHRP (such as healthier lives leaving MRMIP and lack of new enrollees resulting in a deteriorating pool), and significant increases in recent claim trends observed for one of the healthplans. Therefore, at the current time we recommend that the enrollment target remain at 7,100.

We applied best estimates in developing these projections, but the uncertainties associated with the program lead to a wide range in projected fund balances. This

suggests a conservative approach (e.g., establishing at least partial reserves or maintaining lower MRMIP enrollment) or an active (i.e., frequent re-evaluation) approach to selecting enrollment targets is appropriate until the settlement liabilities and receivables are known with more certainty. We are currently taking an active approach (by re-evaluating caseload, expenditures and projections twice a year).

California Major Risk Medical Insurance Program
Projection of Fiscal Year 2010/2011 Average Costs

Exhibit 1

1. Summary of expected state costs

Average base period claim costs per person per year	\$8,724
Trend adjustment from base period to projection period	1.189
Projected claim costs per person per year	\$10,373
Benefit change factor	1.000
Adjusted Claims costs	\$10,373
Average plan admin cost per person per year	\$271
Total cost per person per year for the projection period	\$10,644
Current average premium -- all plans	\$7,044
Adjustment to average expected premium level for July 2010 - June 2011	5.0%
Average expected premium July 2010 - June 2011	\$7,396
Benefit change factor	1.000
Adjusted Premium	\$7,396
Average state subsidy for current enrollees	\$3,248
Base period loss ratio	141%
Projected loss ratio	140%